

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3951-03
Bill No.: SB 944
Subject: Taxation & Revenue-Income, Sales, Use; Education-Elementary & Secondary
Type: Original
Date: February 20, 2002

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON STATE FUNDS | | | |
|---|--------------------|--------------------|--------------------|
| FUND AFFECTED | FY 2003 | FY 2004 | FY 2005 |
| General Revenue | (\$168,261) | (\$30,132) | (\$74,388) |
| School District Trust | \$0 | \$0 | \$0 |
| Highway Funds | \$7,000,000 | \$9,700,000 | \$5,000,000 |
| Total Estimated Net Effect on All State Funds* | \$6,831,739 | \$9,669,868 | \$4,925,612 |

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|--|------------|------------|------------|
| FUND AFFECTED | FY 2003 | FY 2004 | FY 2005 |
| | | | |
| Total Estimated Net Effect on All Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|----------------------|----------------------|----------------------|
| FUND AFFECTED | FY 2003 | FY 2004 | FY 2005 |
| Local Government* | \$142,300,000 | \$196,000,000 | \$101,300,000 |

***This proposal is permissive. Voter approval would be required before fiscal impact would be realized.**

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** assume this legislation imposes an additional sales tax equal to one quarter of one percent and puts a 20% surcharge on corporate income tax in order to provide funding for the school foundation formula. Taxpayers will need to be notified of the tax increases and updated voucher books will need to be mailed mid year to all registered accounts. The MITS and COINS systems will need program changes to recognize the new rates.

DOR assumes the proposed legislation increases the sales tax rate by one quarter of one percent with an effective date of October 1, 2002 and an expiration date of December 31, 2004. The Division of Taxation and Collection will need to mail rate increase and decrease notification letters to the approximately 150,000 registered accounts. New voucher books will need to be mailed to the single and two location voucher filers. Approximately 70,000 updated voucher books will need to be mailed. The costs of these mailings includes postage costs. Assuming updated single and two location voucher booklets are mailed, no impact is anticipated in processing.

The Division of Taxation and Collection recommends an effective date of January 1, 2003, for the sales tax increase to eliminate the need to print and mail updated voucher books.

DOR states the additional tax on corporate tax at a rate of 20% of the amount of tax due goes in effect in the middle of the year. This effective date will result in corporations being subject to different tax rates for the same tax year. This mid-year tax increase will create confusion on the part of the taxpayer. The Division of Taxation and Collection requests one Tax Processing Technician I to handle the increase in correspondence and telephone calls.

DOR assumes the rate tables in the MITS system will need to be updated. A complete system test will need to be completed, new rate charts and notification letters will need to be generated. The above changes will require approximately 87 hours of programming at a total cost of \$2,902. The State Data Center cost to implement the proposed legislation will be \$565.

The rate tables in the COINS system will need to be updated. A complete system test will need to be completed. The above changes will require approximately 346 hours of programming at a total cost of \$11,543. The State Data Center cost to implement the proposed legislation will be \$2,252.

Officials from the **Office of the State Treasurer (STO)** assume this legislation will not fiscally impact their agency.

ASSUMPTION (continued)

The **Secretary of State (SOS)** officials state advertisement costs for statewide newspaper publication of the constitutional amendment would be \$1,157 per newspaper column inch. Based on an estimate provided by the Missouri Press Service for multiple printings as required by the Constitution and state statute, for three publications of the text of the proposal, the introduction, title, fiscal note summary, and affidavit the cost for this proposal would be \$34,710 (\$1,157 per column inch x 3 for = \$3,471 per inch x 10 inches). The proposal would be on the ballot for a special election in August 2002.

Officials from the **Department of Elementary and Secondary Education (DES)** assume this proposal increases taxes to provide dedicated revenue to fully fund the foundation formula for the years 2002-03 and 2003-04. The proposal requires a statewide election for voter approval of such increases. DES cannot estimate the amount of money that will be raised from the increased taxes. DES assumes DOR will provide such a cost estimate. However, DES's FY03 budget request to fully fund the formula was \$219 million. This was an estimate based on the data available at the time. The actual amount needed may be more or less than that amount and will not be known until FY03.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** state this proposal increases sales tax by 1/4 cent and puts a 20% surcharge on corporate income tax.

BAP estimates the additional sales tax revenue would be \$114.5 million for FY03, \$158.6 million for FY04 and \$164.9 million for FY05. The corporate surcharge would increase revenue by \$27.8 million for FY03, \$37.4 million for FY04 and \$37.7 million for FY05. These estimates are based on the Consensus Revenue Estimate. BAP assumes in FY03 that this legislation applies to only 75% of the full years collections because the effective date is 10/1/02. The Missouri Constitution requires that 1/2 of all motor vehicle sales tax go to the highway fund.

Oversight assumes in FY05 that this legislation applies to only 50% of the full years collections because the effective period is from 10/1/02 to 12/31/04.

This legislation would not affect Total State Revenues.

| <u>FISCAL IMPACT - State Government</u> | FY 2003 (9 Mo.) | FY 2004 | FY 2005 |
|--|----------------------|----------------------|---------------------|
| GENERAL REVENUE | | | |
| <u>Income - General Revenue Fund</u> | | | |
| Increase in Corporate Income Tax | \$27,800,000 | \$37,400,000 | \$18,850,000 |
| Increase in Sales Tax (.025%) | <u>\$114,500,000</u> | <u>\$158,600,000</u> | <u>\$82,450,000</u> |
| Total Income - GR from increase in taxes | \$142,300,000 | \$196,000,000 | \$101,300,000 |

| <u>FISCAL IMPACT - State Government</u> | FY 2003 (9 Mo.) | FY 2004 | FY 2005 |
|---|---------------------------|---------------------------|---------------------------|
| <u>Costs - Secretary of State</u> | | | |
| Newspaper Advertisements | (\$34,710) | \$0 | \$0 |
| <u>Cost - Dept. of Revenue</u> | | | |
| Personal Service (1 FTE) | (\$15,894) | (\$21,722) | (\$22,265) |
| Fringe Benefits | (\$5,723) | (\$7,822) | (\$8,018) |
| Expense and Equipment | (\$7,072) | (\$588) | (\$605) |
| Postage & Printing | (\$87,600) | \$0 | (\$43,500) |
| Programming | <u>(\$17,262)</u> | <u>\$0</u> | <u>\$0</u> |
| Total Costs - DOR | (\$133,551) | (\$30,132) | (\$74,388) |
| <u>Transfer Out - Outstanding Schools Trust</u> | | | |
| Increase in taxes | <u>(\$142,300,000)</u> | <u>(\$196,000,000)</u> | <u>(\$101,300,000)</u> |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | <u>(\$168,261)</u> | <u>(\$30,132)</u> | <u>(\$74,388)</u> |
| OUTSTANDING SCHOOLS TRUST FUND | | | |
| <u>Transfer In - School Moneys Fund</u> | | | |
| Increase in taxes | \$142,300,000 | \$196,000,000 | \$101,300,000 |
| <u>Transfer Out - to Local School Districts</u> | | | |
| Increase in taxes | <u>(\$142,300,000)</u> | <u>(\$196,000,000)</u> | <u>(\$101,300,000)</u> |
| TOTAL ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| HIGHWAY FUNDS | | | |
| <u>Income - Highway Funds</u> | | | |
| Increase in Sales Tax (.025%) | <u>\$7,000,000</u> | <u>\$9,700,000</u> | <u>\$5,000,000</u> |
| TOTAL ESTIMATED NET EFFECT ON HIGHWAY FUND | <u>\$7,000,000</u> | <u>\$9,700,000</u> | <u>\$5,000,000</u> |

| <u>FISCAL IMPACT - Local Government</u> | FY 2003 (10 Mo.) | FY 2004 | FY 2005 |
|---|-----------------------------|-----------------------------|-----------------------------|
| SCHOOL DISTRICTS | | | |
| <u>Transfer In - Local Schools</u> | | | |
| Increase in taxes | <u>\$142,300,000</u> | <u>\$196,000,000</u> | <u>\$101,300,000</u> |
| ESTIMATED NET EFFECT ON SCHOOL DISTRICTS | <u>\$142,300,000</u> | <u>\$196,000,000</u> | <u>\$101,300,000</u> |

FISCAL IMPACT - Small Business

Small businesses would be expected to pay/collect the additional one quarter of one percent in sales tax. Any small business that is a corporation could expect to pay higher taxes during this period. Also, additional paperwork may be required.

DESCRIPTION

This act increases the state sales tax by one quarter of one percent. The tax due by a corporation is increased by adding an additional twenty percent charge to the amount owed by a corporation.

The provisions of this act have effect for nine fiscal quarters, beginning on October 1, 2002.

All revenue generated by the act will fund the foundation formula.

This act has a referendum clause and a sunset provision.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
Division of Budget and Planning
Department of Elementary and Secondary Education
State Treasurer
Secretary of State

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Acting Director
February 20, 2002